

FUNDAMENTAL POINTS TO STRESS WHEN DISCUSSING SOCIAL SECURITY

At first glance, Social Security reform is a complex and multi-dimensional issue. You might encounter citizens with questions that are often difficult to answer in simple, understandable language. Below is an outline to help you talk with your neighbors, based on what has worked best for your Senate Republican colleagues in previous listening sessions on Social Security.

Social Security Has To Be Fixed:

- Under the current system, your payroll taxes are immediately used to pay benefits for today's retirees.
- This "pay-as-you-go" system works when many people are paying in and few are collecting benefits. Such was the case in the 1950's when 16 workers paid into the system for every beneficiary.
- As a result, seniors are living longer and collecting more benefits. As a result, there are fewer workers paying into the system per retiree: 3.3 to be exact.
- In the future, there will be less than 2 workers per retiree. Under these conditions, the current system simply can't work.

The Details:

- In 2008, the first Baby Boomers will start collecting retirement benefits. The current surpluses will quickly dwindle and then turn to deficits.
- By 2018, Social Security will begin paying out more than it collects in taxes. The deficits will grow very large, very fast.
- If nothing is done, by 2042, benefits must be cut by one-quarter across the board, with more cuts to follow. Instead of cutting benefits by one-quarter, the payroll tax could be raised by one-third.
- If we continue postponing solutions, our only alternatives will be large tax increases or benefit reductions.

The Longer We Wait, the Worse It Becomes:

- Fixing Social Security is a challenge today. If we wait, it will become a crisis. The Baby Boomers will retire, the system's surpluses will disappear, and the only options will be large tax increases or benefit cuts.
- Whatever tough choices are involved today will only become tougher if we put off action.
- If we act today, changes can be phased in gradually over a number of years. If we fail to act today, our children and our grandchildren will be faced with changes that are large, abrupt, and unpleasant.

What About the Trust Fund?

- Surplus Social Security taxes are credited to the trust fund, but the taxes themselves are spent on other government programs.
- When it comes time to repay the trust fund, the government must raise taxes, cut spending, or run a budget deficit—exactly the same choices as if we didn't have a trust fund at all.
- The trust fund doesn't contain real savings. It is a collection of IOU's the government has written to itself.
- These IOUs do physically exist: as a set of IOU documents in a three drawer file cabinet in Parkersburg, West Virginia.
- When it comes to paying benefits, the trust fund is an empty promise.

How Personal Retirement Accounts Work:

- Workers could invest a portion of their Social Security taxes in an account similar to an IRA. Accounts would be managed by an independent agency like the Federal Reserve to avoid political interference or high Wall Street management fees.
- Investments would be limited to a diversified, low-cost mix of bond funds and stock funds. Workers couldn't take their accounts to Vegas to shoot dice.
- Remember that these accounts would be voluntary. For those first-time investors who choose to participate, it would be a simple, low-risk opportunity to build a nest-egg.
- At retirement, account balances would pay a portion of a worker's Social Security benefits, with the rest coming from traditional programs.
- Retirees couldn't draw down their balances all at once; a minimum income must be guaranteed.
- Personal accounts alone won't fix Social Security; other changes will be needed. However, they are critical to any effective plan to put Social Security on a strong foundation of real savings.
- All Federal employees—including myself—participate in such a program. It's called the Thrift Savings Plan (TSP). I believe if it's good enough for Congressman, it's more than good enough for the American people.

Personal Retirement Accounts: A Better Way to Save

- Personal accounts would be a better way to save for Social Security's future.
- Personal accounts would "take away the cookie jar" from Congress; surplus Social Security taxes would be saved to pay benefits, not siphoned off to pay for other things.
- Personal accounts put money where workers can watch it and the government can't spend it.
- This is about getting your money out of Washington and into your personal accounts that will build your retirement nest-egg.

Ownership:

- Under today's Social Security, there's no account holding your retirement money. With personal accounts, you will have a nest-egg in your own name, belonging to you.
- Personal accounts give all workers ownership. When people own things, they pay more attention and are more engaged in decisions that affect their lives.
- Never forget that this money does not belong to Washington politicians, this is your (your children and your grandchildren's) money for your (their) retirement; personal accounts build a nest-egg for you (or your children and your grandchildren).

Source: Senate Republican Conference, Rick Santorum, Chairman Kay Bailey Hutchison, Vice Chairman

Returns and Benefits:

- Personal accounts would give workers the chance to earn higher rates of return—and receive higher benefits—than the current system can afford to pay.
- Workers could choose to invest only in guaranteed government bond funds, or a mix of corporate bond funds and stock funds if they wished to take more risk in exchange for a higher return.
- However, highly risky investments would not be allowed. Plus, accounts would automatically shift from stocks to bonds as workers neared retirement, so a stock drop just prior to retirement wouldn't have great effect.

Social Security Reform: Important for Today's Seniors

- For current and near retirees, nothing will change for you; your benefits will be paid, on time and in full, with no changes whatsoever.
- Seniors should be part of the debate. Every system can be improved, and seniors' knowledge and experience is essential if Social Security is to be saved and strengthened for future generations.
- For retirees and near-retirees, the debate isn't about their own benefits, it's about the kind of system they want their children and grandchildren to have – one that is stable, funded, and growing, or one that will collapse before your children retire.

Conclusion:

- A Social Security system that was designed for the world of 1935 will not work in the world of 2035 and beyond. Changes must be made, and the sooner we act, the more successful they will be.
- If Social Security were being created from scratch today, we would surely include a way to help everyone build up a nest egg that is owned by workers and couldn't be spent by politicians.
- A reform plan incorporating personal retirement accounts builds on the values of Social Security's past, but modernizes the program for the future.